

INTERNAL REVENUE SERVICE  
DISTRICT DIRECTOR  
31 HOPKINS PLAZA  
BALTIMORE, MD 21201

DEPARTMENT OF THE TREASURY

Person to Contact:

Contact Telephone Number:

Reply to: EP/EO:T

Date: APR 2 1996

CERTIFIED MAIL:

Dear Applicant:

We have completed our review of the application for recognition of exemption from federal income tax under section 501(c)(6) of the Internal Revenue Code which you recently filed and have concluded that you do not qualify for exemption under this section. Our reasons for this conclusion and the facts on which it is based are explained below.

The evidence submitted indicates that you were incorporated under the laws of the . Article Third of your Articles of Incorporation states that your purposes are "to assemble, discuss and react to any and all matters that affect the distributor network or each of the members."

Article III c' your Constitution provides the requirements for membership in your organization. Section 1 of this article states that "Any active franchised distributor of the . may be considered for membership in the organization." This article further provides that "Employees of (or businesses associated with ) are not eligible for membership in this organization."

Information submitted with your application indicates that your membership consists of franchised distributors located throughout the United States. Your activities consist of holding two meetings a year for this membership where information is exchanged among the members on how to become a better distributor, get new accounts, improve relationships with customers and devise better methods of repairing and servicing the vending machines. In addition, conference calls between the officers to discuss various matters are also used as a means of exchanging information relating to matters.

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
	2-22-96		71.50				
Surname			EP/EO:T				
Date	2-22-96	2/25/96	4/3/96				

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Income to your organization comes from initiation fees and yearly dues collected from members. No breakdown has been provided as to the nature of [redacted]'s expenses.

Section 1.501(c)(6) of the Internal Revenue Code provides for the exemption from federal income tax of business leagues, chambers of commerce, real estate boards, boards of trade, and professional football leagues, which are not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations states that a business league is an association of persons having some common business interest, the purpose of which is to promote such common business interest and not to engage in a regular business of a kind ordinarily carried on for profit. Its activities should be directed to the improvement of business conditions in one or more lines of business as distinguished from the performance of particular services for individual members.

Revenue Ruling 83-164, 1983-2, C.B., 136, held that an organization whose members represent diversified businesses that own, rent, or lease computers produced by a single computer manufacturer does not qualify for exemption under section 501(c)(6) as a business league. The organization's primary activity is promoting the common business interests of users of a particular manufacturer at the expense of computing products. Further, the organization directs its activities toward improving business conditions in only segments of the various lines of business to which its members belong rather than an industry as a whole.

In National Muffler Dealers Association v. U.S., 440, U.S. 472, (1979), a trade association confined its membership to dealers franchised by a particular company and its activities to the business of that company. In this case, the United States Supreme Court adopted the Internal Revenue Service's interpretation of the "line of business" requirement and stated that an association whose activities are not industry wide should not be exempt. Accordingly, the Supreme Court denied tax exempt status to an association of a single brand of muffler dealers because the dealer's activities did not improve conditions of an industrial line, but promoted a particular product at the expense of others.

In Guide International Corporation v. U.S., 90-1, USTC, 50,304, the District Court determined that Guide International Corporation, a computer user's group, did not qualify for exemption under section 501(c)(6) since it did not promote the common business interests of its members and did not improve business conditions in one or more lines of business. Citing National Muffler Dealers Association, supra, the court determined that an organization with a primary objective other than to benefit an entire industry and with a purpose to promote and give a competitive advantage to one product or one segment of a business cannot satisfy the line of business test of section 501(c)(6).

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Our review of the application filed by your organization indicates that like the organizations cited in Revenue Ruling 83-164, National Muffler Dealers Association, and Guide International, the membership of your organization is limited to franchised distributors of [redacted] products. By limiting membership in your organization to this group, your programs and activities only improve conditions for the segment of a line of business that use [redacted] products rather than for the vending machine industry as a whole.

By operating in this manner, your activities give a competitive advantage to users of [redacted] products instead of improving conditions within the vending machine industry as a whole and do not meet the "line of business" requirement of section 501(c)(6)

Based on the information submitted, we have concluded that you do not qualify for exemption under section 501(c)(6) of the Internal Revenue Code. In accordance with this determination, you are required to file federal income tax returns on Form 1120.

If you do not agree with our determination, you may request consideration of this matter by the Office of Regional Director of Appeals. To do this, you should file a written appeal, as explained in the enclosed Publication 892. Your appeal should give the facts, law and any other information to support your position. If you want a hearing, please request it when you file your appeal and you will be contacted to arrange a date. The hearing may be held at the regional office, or, if you request, at any mutually convenient district office.

If you will be represented by someone who is not one of your principal officers, that person will need to file a Power of Attorney or tax information authorization with us.

If you don't appeal this determination within 30 days from the date of this letter, as explained in the enclosed Publication 892, this letter will become our final determination on this matter.

Appeals submitted which do not contain all the documentation required by Publication 892 will be returned for completion.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely yours,

[redacted]  
District Director

Enclosure: Publication 892